UNITED
NATIONS

A

General Assembly

Distr.
GENERAL

A/CONF.151/PC/100/Add.3
14 January 1992

ORIGINAL: ENGLISH

PREPARATORY COMMITTEE FOR THE UNITED
NATIONS CONFERENCE ON ENVIRONMENT
AND DEVELOPMENT
Fourth session
New York, 2 March-3 April 1992
Plenary session
Item 2 (c) of the provisional agenda*

PREPARATIONS FOR THE UNITED NATIONS CONFERENCE ON ENVIRONMENT AND DEVELOPMENT ON THE BASIS OF GENERAL ASSEMBLY RESOLUTION 44/228 AND TAKING INTO ACCOUNT OTHER RELEVANT GENERAL ASSEMBLY RESOLUTIONS: CROSS-SECTORAL ISSUES

International policies to accelerate sustainable development in developing countries, and related domestic policies

(Section I, Chapter 1, of Agenda 21)

Report of the Secretary-General of the Conference

I. INTRODUCTION

1. The present chapter has been prepared in response to Preparatory Committee decision 3/9 entitled "Sustainability, international economy, integrated-environmental accounting and economic instruments", within the structure provided in decision 3/2 entitled "Structure and organization of Agenda 21" (see A/46/48, vol. II, annex I).

2. Economic policies of individual countries and international economic relations both have great relevance to sustainable development. In the present chapter, aspects of international economic relations such as international trade and financial flows are presented first because of their strong influence on the ability of developing countries to achieve economic

---

* See A/CONF.151/PC/96.

growth in a manner consistent with the sound management of natural resources. The Conference provides an important opportunity to achieve progress in international action in these areas. This should be designed to complement and support, and not to diminish or subsume, sound domestic economic policies both in developed and developing countries if global progress towards sustainable development is to be achieved.

3. The international economy should provide the global framework for achieving environment and development goals in the following ways:

(a) Promoting development through trade;

(b) Clarifying the relationship between environment and trade;

(c) Providing adequate net financial flows to developing countries - or dealing with international debt;

(d) Encouraging macroeconomic policies conducive to environment and development.

II. PROGRAMME AREAS

A. Promoting development through trade

1. Basis for action

4. An open trading system, which leads to the distribution of global production in accordance with comparative advantage, is of benefit to all trading partners.

5. The commodity sector dominates the economies of many developing countries in terms of production, employment and export earnings. The deterioration of terms of trade affecting developing countries, and protectionist barriers limiting access of their exports to developed country markets, impair the ability of developing countries to mobilize through international trade, resources needed to fund investments required for sustainable development.

6. In particular, agriculture, on which many developing countries depend to a considerable extent, is probably the most protected sector in many developed economies. Such protectionism and the subsidies for production and exports affect the livelihoods of large rural populations in developing countries and reduce the options available to them. These policies are not only costly, but also penalize consumers and adversely impact the environment.

7. In addition, tariff levels in developed market economies are generally higher on products of export interest to developing countries. Tariff escalation in step with the degree of processing also tends to confine developing countries to the role of exporters of primary commodities.

2. Objectives

8. In the years ahead, and taking into account the results of the Uruguay Round of multilateral trade negotiations, Governments should strive to meet the following objectives:

(a) Promote an open international trading system that will enable all countries to transform their economic structures and improve the standard of living of their populations through sustained economic development;

(b) Improve access to markets for exports of developing countries;

(c) Improve commodity prices to enable developing countries to optimize the contribution of their commodity sector to sustainable economic development by including the costs of dealing with environmental impacts of prices, and to ensure the long-term availability of commodity supplies to consumers.

3. Activities

(a) Management-related

Develop domestic policies that maximize the benefits of trade liberalization

9. For developing countries to benefit from the liberalization of trading systems, they should implement the following policies:

(a) Remove biases against exports and discourage inefficient import-substitution;

(b) Promote the infrastructure required to improve the efficiency of export and import trade.

10. The following policies should be adopted by developing countries with respect to commodities:

(a) Expand processing and improve marketing practices;

(b) Diversify in order to reduce dependence on commodity exports;

(c) Move towards commodity prices that reflect environmental and resource costs.

(b) International and regional cooperation and coordination

Promote an international trading system that takes account of the needs of developing countries

11. The following policies are intimately linked with sustainable development and should be given high priority in future trade negotiations, in particular General Agreement on Tariffs and Trade (GATT) negotiations: 1/

(a) Reduce tariffs in developed country markets on products of export interest to developing countries;

(b) Phase out tariff escalation against processed products of export interest to developing countries;

(c) Phase out non-tariff barriers, such as quantitative restrictions, voluntary export restraints, surveillance measures, export subsidies and the use of anti-dumping laws for protectionist purposes, and ensure that consumption taxes in developed countries on primary and processed commodities are limited to those required for environmental ends;

(d) Phase out agricultural subsidies and protectionism in developed countries.

(c) Data and information

(i) Encourage data collection and research

12. The Secretary-General of the United Nations is requested to strengthen the Trade Control Measures Information System managed by the United Nations Conference on Trade and Development (UNCTAD).

(ii) Improve the terms of commodity trade

13. With regard to commodity trade, 2/ Governments should, directly or through appropriate international organizations:

(a) Participate in commodity agreements or arrangements with a view to eliminating supply overhangs, facilitating market transparency and predictability, enhancing commodity-related research and development and achieving prices reflecting environmental and resource costs;

(b) Provide compensation mechanisms for shortfalls in commodity export earnings of developing countries;

(c) Provide assistance to developing countries in the design and implementation of commodity policies, the negotiation and operation of commodity agreements and the gathering and utilization of information on commodity markets;

(d) Support efforts of developing countries to promote infrastructure to improve the efficiency of export and import trade.

4. Means of implementation

(a) Financing and cost evaluation

14. The costs of the international cooperation activities presented above would be as follows:

(a) Commodity agreements. The annual administrative expenditures of 10 existing agreements and arrangements amount to approximately US$ 22.5 million. Additional needs for cooperation on other commodities could bring this figure up to about US$ 30 million a year, an increase of about US$ 7.5 million a year.

(b) Compensation of export earnings shortfalls. Annual average commodity sector shortfalls for developing countries, which could be compensated, amounted to US$ 8.7 billion between 1985 and 1989.

(c) Technical cooperation requirements would be in the order of US$ 5 million per year.

(d) Support for infrastructure development is estimated at US$ 100 million annually.

(e) Strengthening the Trade Control Measures Information System within UNCTAD would cost US$ 0.5 million annually.

(b) Capacity-building

15. The above-mentioned technical cooperation activities aim at strengthening national capabilities for design and implementation of commodity policy, the negotiation and operation of commodity agreements and the gathering and utilization of information on commodity markets.

B. Clarifying the relationship between environment and trade

1. Basis for action

16. Environment and trade policies act and react on each other. International trade makes possible a more efficient allocation and use of resources and thereby contributes to an increase in production and per capita incomes. It thus provides the additional resources needed for economic growth and development and makes possible greater attention to, and larger investment for, the improvement of the environment. A sound environment, on the other hand, provides the ecological and other resources needed to sustain growth and underpin a continuing expansion of trade. Because the trade system provides for the exchange of goods and services, and can modify patterns of production

and consumption, it may have both a positive and a negative impact on the environment.

17. To date few environment-related trade issues have arisen. There has, however, been a growing tendency to use the trade system to deliver environmental objectives as, for example, in the case of the Convention on International Trade in Endangered Species of Wild Fauna and Flora and the Montreal Protocol. At the same time, it will be important to ensure that the root causes of environment and development problems, which lie in economic and social policies, are addressed, so that the trade system does not become a conveyor of these problems, resulting in new forms of unjustified environment-based barriers to trade.

2. Objectives

18. Over the next several years, Governments should strive to meet the following objectives, through GATT and other international forums:

(a) Make environment and trade supportive and mutually reinforcing;

(b) Develop a framework for determining when environment-related trade measures can justifiably be used;

(c) Clarify the role of GATT and other international organizations in dealing with environment-related trade issues and, where necessary, create new systems for promoting consultations and resolving disputes;

(d) Provide an international trade system that encourages international productivity and competitiveness and encourages a constructive role on the part of industry in dealing with environment and development issues.

3. Activities

Developing an environment/trade agenda

19. Over the next several years, Governments should encourage GATT and other international and regional economic institutions, including UNCTAD, to examine the following propositions and principles:

(a) Apply trade and environment policies in a transparent manner;

(b) Deal with the root causes of environment and development problems and avoid those being transmitted to the trade system;

(c) Avoid subsidies and other trade measures to offset differences in costs arising from justifiable differences in environmental standards and regulations, since their application could lead to both environmental and trade distortions;

(d) Ensure that environment-related health and safety standards remain strictly related to the environmental purposes they are intended to serve so that they are not used as non-tariff barriers to trade;

(e) Ensure that special factors affecting environment and trade policies in the developing countries are borne in mind in the application of environmental standards as well as in the use of any trade measures;

(f) Resolve environment-linked trade issues through global or multilateral agreements whenever appropriate, and avoid unilateral action that amounts to extending beyond national boundaries the applicability of national legislation;

(g) Develop more precision in some of the GATT provisions so as to allow clearer and more specific treatment of environmental issues and to avoid confusion over the legal status of some of the multilateral measures adopted in the area;

(h) Establish a strong consultation and dispute settlement process in which both environment and trade experts are represented.

C. Providing adequate net financial flows to developing countries

1. Basis for action

20. Investment is critical to the ability of developing countries to achieve needed economic growth to improve the welfare of their populations and to meet their basic needs in a sustainable manner, all without deteriorating or depleting the resource base that underpins development. Sustainable development requires increased investment, for which financial resources are needed. Many developing countries have experienced a decade-long situation of negative net transfer of financial resources, during which their financial receipts were exceeded by payments they had to make, in particular for debt-servicing. As a result, domestically mobilized resources had to be transferred abroad instead of being invested locally in order to promote sustainable economic development.

21. The debt crisis impairs a functioning of the international financial system and prevents it from fulfulling its vital role in providing funds to support development and trade. Widespread clearing of outstanding balances would restore the ability of the international financial system to contribute to growth and development.

2. Objectives

22. The specific requirements for the implementation of the sectoral and cross-sectoral programmes included in Agenda 21 are dealt with in the relevant programme area and in the related discussion of financial resources and mechanisms. However, in order to provide a macroeconomic framework that would restore the ability of developing countries to invest for sustainable development, it is necessary to ensure substantial positive net resource flows to developing countries by increasing official development assistance (ODA) to internationally envisaged targets and through substantial debt and debt-service reduction.

3. Activities

(a) Meet international targets of official development assistance funding

23. Governments of developed countries should indicate a schedule of increases leading, by a specific time, to the target of 0.7 per cent of gross domestic product (GDP) or any higher target that may be agreed upon in the light of the requirements of Agenda 21. Within the overall amount, a specific percentage should be earmarked for the least developed countries.

(b) Address to debt issue

24. To provide debt relief, Governments of developed countries should cooperate in order to achieve the following objectives:

(a) Reduce, through coordinated action, the debt owed to private banks by a number of developing countries engaged in economic policy reform;

(b) Expand programmes in reduction of debt owed to official bilateral creditors by low-income debtors;

(c) Extend reduction of the debt owed to official bilateral creditors to additional lower- and middle-income creditors engaged in economic policy reform;

(d) Further reduce the debt owed to multilateral creditors and related debt service through clearing arrears and subsidizing interest rates.

4. Means of implementation

Financing and cost evaluation

25. ODA. An increase in official development assistance to 0.7 per cent of GDP funding would amount to approximately a doubling of current levels, which are in the order of US$ 55 billion per year, to US$ 110 billion per year.

26. Debt relief. 3/ On the basis of a study by the World Bank, it should be possible to reduce the debt owed to private banks by developing countries by about US$ 200 billion for a cost of about US$ 25 billion, through coordinated action. The debt owed to bilateral official creditors by severely indebted low-income countries amounts to some US$ 40 billion. It has been suggested that most or all of this debt be written off. The debt owed to bilateral creditors by severely indebted middle-income countries is in the order of US$ 80 billion. A reduction of some US$ 40 billion should be given consideration in order to make a substantial positive impact on the economies of debtor countries. Arrears owed to multilateral creditors suggested for clearing amount to some US$ 3.5 billion. An annual subsidy of some US$ 2 billion could be given consideration in order to substantially reduce the debt service to be paid by severely indebted low- and middle-income countries to multilateral creditors. In total, a one-time payment of US$ 28.5 billion, a recurrent interest rate subsidy of US$ 2 billion a year and a write-off of US$ 80 billion are suggested. The budgetary cost associated with the suggested write-off would be significantly lower than the amount of the write-off when account is taken of the actual amounts due for repayment in the medium term, the likelihood of default and other such factors.

D. Encouraging macroeconomic policies conducive to environment and development

1. Basis for action

27. The unfavourable external environment facing developing countries makes domestic resource mobilization, and efficient allocation and utilization of domestically mobilized resources, all the more important for the promotion of sustainable development. In a number of countries, policies are necessary to correct misdirected public spending, large budget deficits and other macroeconomic imbalances, restrictive policies and distortions in the areas of exchange rates, investment and finance, and obstacles to entrepreneurship. In developed countries, such policy reforms would help to release resources for supporting the transition to sustainable development domestically and for supporting such a transition in developing countries. An increase in domestic savings in developed countries would be a complement to policies to restrain consumption on environmental grounds.

2. Objectives

28. It is necessary to establish economic policy reforms that promote the efficient utilization of resources for development through sound macroeconomic policies, fostering entrepreneurship and removing sources of distortion in the area of trade and investment.

3. Activities

(a) Management-related

Promote effective macroeconomic policies

29. The major industrialized countries should strengthen their efforts:

(a) To bring about a stable and predictable international economic environment, particularly with regard to real rates of interest and fluctuations in key exchange rates;

(b) To raise the pool of global savings by reducing fiscal deficits and stimulating personal savings;

(c) To ensure that the processes of policy coordination take into account the interests and concerns of the developing countries.

30. Developing countries should strengthen their efforts to implement macroeconomic policies:

(a) That maintain monetary and fiscal discipline required to promote price stability and external balance;

(b) That ensure realistic exchange rates;

(c) That raise domestic savings and investment, as well as improve returns to investment.

31. More specifically, all countries should develop policies that improve efficiency in the allocation of resources and take full advantage of the opportunities offered by the changing global economic environment. In particular, wherever relevant, countries should:

(a) Remove the barriers to progress caused by bureaucratic inefficiencies, administrative strains, unnecessary controls and the neglect of market conditions;

(b) Promote transparency in administration and decision-making;

(c) Encourage the private sector and foster entrepreneurship by removing institutional obstacles to enterprise creation and market entry; the essential objective would be to simplify or remove the restrictions, regulations and formalities that make it more complicated, costly and time-consuming to set up and operate enterprises in many developing countries;

(d) Promote the investment and infrastructure required for economic growth and diversification over an environmentally sound and sustainable basis;

(e) Provide scope for the operation of market forces and for realistic pricing as a means to greater efficiency and sustainable development;

(f) Promote the operation of effective tax systems and financial sectors;

(g) Remove biases against exports and in favour of inefficient import substitution and establish policies that allow them to benefit fully from the flows of foreign investment, within the framework of national goals.

(b) International and regional cooperation and coordination

32. Governments of developed countries should, directly or through appropriate international organizations and international lending institutions, enhance their efforts to provide developing countries with the following:

(a) Increased technical assistance in the design and implementation of macroeconomic policies;

(b) The design and operation of efficient tax systems and financial sectors;

(c) The promotion of entrepreneurship.

4. Means of implementation

(a) Financing and cost evaluation

33. The cost of the above-mentioned technical cooperation activities would be in the order of US$ 50 million annually.

(b) Capacity-building

34. The above-mentioned policy changes in developing countries involve substantial national efforts for capacity-building in the areas of public administration, central banking, tax administration, savings institutions and financial markets.

Notes

These notes are taken from the report of the Secretary-General of UNCTAD entitled "Accelerating the development process: challenges for national and international policies in the 1990s" (TD/354).

1/ Protectionism and market access

Broad trends in trade policies affecting the market access of developing countries during the 1980s did not give cause for optimism. Protectionist measures in major market economies tended to concentrate in sectors where developing countries have a distinct comparative advantage and international competitiveness. Tariff levels in developed market economy countries

Notes (continued)

continued to be higher on products of export interest to developing countries than on other imports, and tariff escalation in step with the degree of processing remained a handicap. Tariff concessions under the generalized system of preferences (GSP), which in any case suffered some erosion, redressed these problems only partially, since only about one fourth of the dutiable exports of developing countries enjoy preferential treatment; there is wide agreement that the system needs to be strengthened and its coverage extended.

The most serious impediment to market access, however, was the proliferation of non-tariff barriers, which currently affect almost 30 per cent of the exports of developing countries to the developed market economies. These barriers include a wide variety of measures often directed specifically against developing countries, including voluntary export restraints, surveillance measures, export subsidies and the use of anti-dumping laws for protectionist purposes. In sectors of particular export interest to developing countries, the proportion of affected trade ranged from one half to three quarters.

Yet other developments occurred in international trade policy which give cause for concern. These included the tendency to establish linkages between the implementation of previously agreed commitments in the area of trade in goods and concessions in other areas, such as foreign direct investment, protection of intellectual property, and services; the unilateral withdrawal, as already mentioned, of preferential measures previously accorded to developing countries for reasons often running counter to agreed commitments; the use of arguments of trade balance to press for bilateral reciprocity; and increased resort to unilateral retaliatory approaches to secure changes in the policies and negotiating positions of weaker trading partners.

Policy issues in the 1990s regarding market access conditions are likely to be influenced by the results of the Uruguay Round in several respects. Much will depend on the extent to which the Round results in more liberal and secure conditions of access. These must include specific tariff concessions and non-tariff liberalization favouring developing country products in the markets of developed countries, the elimination of "grey area" measures such as voluntary export restraints, and tighter disciplines on anti-dumping and countervailing measures. Trade liberalization is particularly needed in such sectors as agriculture, textiles and clothing, tropical products, and natural resource-based products.

Overall, stronger multilateral principles, rules and disciplines which reduce the possibilities for restriction or harassment of trade, as well as underpinning and stimulating trade liberalization, must remain a central objective. Such an evolution would have to be based on full respect for the principle of non-discrimination, including the unconditional application of most-favoured-nation treatment and the steady elimination of arrangements for market sharing and managed trade. The prohibition of unilateral action

Notes (continued)

outside the legal framework of the General Agreement on Tariffs and Trade, as well as the maintenance of an effective system of dispute settlement, would be essential.

Eliminating protectionism in the developed countries must be complemented by more active policies to facilitate adjustment to structural change. Resisting structural adjustment through protectionism creates long-term problems for the strength and competitiveness of the productive base of those countries themselves. It also has serious adverse consequences for the export prospects of their trading partners, including those in the developing world. The interests of the developed countries, in the long run, lie in taking advantage of opportunities for an improved international division of labour to promote the orderly transfer of capacities from areas of low productivity to areas better suited to their factor endowment. If industrialized countries do not allow increasing imports from the developing world to replace parts of their own production, they also forgo the chance of expanding their own exports, because the import capacity of developing countries will be constrained. Besides, lower cost imports from developing countries increase the real incomes of consumers in developed countries.

2/ Commodities

(a) Balancing supply and demand of individual commodities at improved real price levels

The evolution of commodity markets during the 1980s has led to short-term price instability becoming a less important problem than medium- to long-term price depression resulting from over-supply and, in some cases, from weak demand. The latter problem needs to be tackled through creating conditions aimed at strengthening the demand for primary commodities, making supply more responsive to the market situation and improving price levels over a period of time.

The conditions necessary for strengthening demand for commodities include the elimination of consumption taxes, especially on tropical products, and of restrictions on imports of primary and processed commodities wherever they exist. The easing of foreign-exchange shortages in Central and Eastern Europe would help considerably, as also in developing countries where per capita consumption levels for many commodities are comparatively low. In addition, increasing consumption will call for expanded promotional activities, and the development of new end-uses.

The conditions necessary for making supply more responsive to the market situation basically entail changes in policies which induce uncompetitive production. Such policies concern, in particular, production subsidies, especially in the developed countries, and domestic policies pursued in developing countries,

Notes (continued)

aimed at increasing export volumes without regard to the market situation. Other key conditions for improving price levels are the removal of supply overhangs, the elimination of export subsidies and improved information flows on market prospects.

(b) Optimizing the contribution of the commodity sector to development, including through diversification

Optimizing the contribution of commodities to development in developing countries will call for a variety of strategies in the short to medium term. For developing countries dependent on one or two commodities for the bulk of their export earnings, every effort must be made to diversify productive capacities and export, both horizontally and vertically. For those already having a more diversified commodity export base, optimizing the contribution of commodities to development would require using part of the resources generated by the commodity sector to develop their manufacturing and services sectors. For both groups of countries the essential condition is to enhance their capacity to manage commodity dependence through commodity policies, set within the context of an appropriate macroeconomic framework. This should include adequate incentives for private entrepreneurship, and support from the public sector, notably in the fields of human resources development, information and infrastructure, as well as, where necessary, direct participation.

Such commodity development policies will require decisions on a wide range of issues: meeting food requirements and improving food distribution domestically; improving productivity in the commodity sector; finding alternative or new end-uses for commodities through concerted actions in research and development; determining the best options for diversification and for processing; improving export marketing and distribution arrangements; and meeting the financial needs of the sector. Decisions on productivity and diversification will need to take into account the possibilities of over-supply, and hence will need to be coordinated, to the extent possible, with those of other countries.

Strengthening the linkages between the commodity sector and the rest of the economy will help to optimize the sector's contribution to development. Horizontal diversification for domestic consumption, increased production of goods for use in the commodity sector, and processing will serve this purpose, while expanding the productive and industrial base of the economy.

Strengthening the involvement of developing countries in support services for the commodities sector and in the marketing, transport and distribution of their commodities can also increase

Notes (continued)

the contribution of commodities to development while stimulating the development of the services sector.

Instability in foreign-exchange earnings from commodity exports adversely affects the implementation of commodity policies. In this connection, a distinction must be made between the need for bringing finance for temporary export earnings shortfalls and the need for assistance for recurring shortfalls in commodity earnings. Bridging finance is in principle available in the form of commercial loans, and as drawings under the IMF Compensatory and Contingency Financing Facility, of which little use has been made in recent years. Finance to deal with recurring shortfalls in individual commodity exports is available through the EEC/ACP STABEX and SYSMIN, the EEC STABEX-LDC-ALA and the Compensatory Financing Programme of the Government of Switzerland. However, these are restricted in their commodity and country coverage, and their funding is limited. Other instruments that can be used to cope with individual commodity price instability include futures and options, swaps and bonds, and long-term contracts, as well as buffer-stocking and export quotas in commodity agreements.

It is highly unlikely that developing countries attempting to manage their commdity dependence will have at their disposal the required technical and financial resources. Technical cooperation for the formulation of commodity policies, and for their implementation, needs to be provided.

(c) Ensuring environmentally sound management of natural resources, with a view to sustainable development

Commodities are at the heart of the question of sustainable development. National and international commodity policies must take on board ecological and environmental considerations and use them in a constructive fashion, including to promote trade. The central issue is how to manage rationally the natural resources of the planet so as to maximize their contribution to the welfare of the present generation while allowing for a sustainable rate of exploitation in the future.

As already discussed, a key element in such environmentally sound management is for the prices of all final products to reflect fully the costs of environmental degradation and pollution. Account has to be taken of the extent to which the environment has already been degraded in individual countries as a result of past productive activities in order to ensure an equitable sharing of responsibilities and costs.

Notes (continued)

3/ Debt relief

It is recognized that solutions to the debt problem should include debt and debt-servicing reduction as a central element. However, the scope of debt relief resulting from the Brady and Toronto initiatives has been rather limited. To provide a durable solution to the debt crisis, the international community should, therefore, consider bolder approaches.

In the area of debt owed to private banks, the agreements so far concluded under the Brady initiative have resulted in much less debt reduction than is required. The agrements for some countries are more akin to conventional reschedulings. For others, debt-reduction operations are counterbalanced by debt-increasing ones. Moreover, the agreements have made the remaining debt more difficult to restructure.

With a view to enlarging considerably the scale and pace of debt and debt-service reduction, the Brady initiative needs to be strengthened in several ways:

(a) The negotiations process between debtor countries and commercial banks should be anchored on authoritative estimates of the country's debt reduction and cash flow needs, rather than determined by the balance of negotiating strength. The multilateral financial institutions could play a useful role in this regard.

(b) National laws and regulations in creditor countries could be directed more effectively towards achieving adequate levels of debt and debt-service reduction. For example, regulations on tax reductions on loan-loss provisions and tax relief on losses could be harmonized in such a way as to encourage banks to participate in debt-reduction packages.

(c) Any increase in the financial support for debt reduction provided by multilateral financial institutions and the regional development banks should be accompanied by measures to put additional funds at the disposal of these institutions. Otherwise, lending for new investment, which is essential to successful adjustment, could be adversely affected.

With regard to debt owed to official bilateral creditors, there has clearly been some progress in alleviating the debt burden of low-income countries. The Toronto agreement marked a significant step forward in that for the first time creditor Governments recognized the need for relief with regard to non-concessional official debt. However, the degree of relief granted falls far short of what is warranted by the debt-servicing capacity of low-income countries. Proposals have been made recently by several creditor Governments to bring about a much bigger reduction of debt and debt service for these countries (including a reduction of up to 100 per cent in the

Notes (continued)

Netherlands scheme). These proposals deserve serious and urgent consideration. The "Trinidad and Tobago terms" proposed by the United Kingdom would represent a major advance, but for numerous low-income countries debt burdens would still remain too high. Moreover, debt relief should not be at the expense of fresh aid. The list of beneficiaries of the Toronto Terms has recently been widened to include IDA-only countries of Latin America and the Caribbean, but eligibility criteria need to be further revewed. As a first step, all least developed countries and all IDA recipients should be allowed to benefit.

The burden of official debt on lower middle-income countries has recently received more attention by creditor countries. The new Paris Club policy for heavily indebted countries in this category involves longer maturities and grace periods. This represents a step in the right direction. However, many of these countries will need reduction of their official bilateral debt as well as of their debts to commercial banks. A major step forward has been taken in the case of Poland and Egypt, whose prospects will be significantly improved by the recent decisions to reduce their official bilateral debts by at least half. It is to be hoped that the many other low- and middle-income countries whose burden of bilateral official debt is excessively onerous will receive comparable treatment. In order to foster adjustment and growth, the international debt strategy must be governed by objective economic criteria and not by political preferences or narrow financial concerns.

The issue of multilateral debt has also become a matter of concern. Net financial transfers from multilateral institutions to some highly indebted developing countries have declined sharply, and a number of debtor countries are experiencing difficulties in meeting their obligations. Although measures have been taken by multilateral institutions to alleviate the servicing burden and to help clear the arrears, they are not sufficient. Further measures are needed to deal with the multilateral debt problem, while safeguarding the soundness of creditor institutions. "Support groups" could be made more active in providing resources for the purpose of clearing arrears to multilateral financial institutions. Other existing mechanisms, such as interest rate subsidies or refinancing schemes funded by reflows or special trust funds, could also be strengthened and widened.